FORAGER INTERNATIONAL SHARES FUND

MONTHLY REPORT JANUARY 2020 www.foragerfunds.com

PERFORMANCE (Net of all fees and expenses)

FORAGER INTERNATIONAL SHARES FUND PERFORMANCE SUMMARY (as at 31 January 2020)

	1 month return	3 month return	6 month return	1 year return	3 year return (p.a.)	5 year return (p.a.)	Since inception* (p.a.)
International Shares Fund	3.62%	13.75%	16.10%	21.83%	8.45%	11.58%	13.81%
MSCI ACWI IMI	3.61%	7.77%	10.26%	25.58%	15.34%	11.72%	15.73%

*8 February 2013. Past performance is not a reliable indicator of future performance and the value of your investments can rise or fall.

At the time of writing, the number of confirmed cases of coronavirus is more than 28,000, with over 500 deaths reported—most of them in China. Aggressive containment measures have been put in place globally, particularly in Hubei province where the virus first emerged.

Unsurprisingly the quarantine measures are hurting our investment in **Yum China** (NYSE:YUMC), the owner of KFC and Pizza Hut stores in China. More than 30% of their restaurants have been temporarily closed. For those open, sales per store have halved versus the prior comparable period. It's a painful and substantial test of the business and management, at the very least temporarily.

Having first opened in China in 1987, Yum China has built scale and processes that have been able to absorb shocks. The SARS outbreak in 2003 is a case in point. Revenues have grown ten-fold since. There have been food safety incidents that forced a rejigging of supply chain processes. More recently, the company has navigated through the rapid spike in food cost caused by the African Swine Flu. But this is clearly the biggest test yet.

Prior to the emergence of the virus, the recent fourth quarter result was strong, beating market expectations for the ninth consecutive quarter. The company has executed well on factors within its control—growing its store network, improving its digital strategy and launching several new menu offerings. In a year where food costs were rising, the company still managed to expand margins. The balance sheet is strong, with more than US$1.6bn in cash and no debt. Few competitors have such meaningful 'rainy day' reserves. This should see Yum China through the current challenges.

The Fund's investment in **Just Group** (LSE:JUST) has been sold. Our 2016 investment in this UK annuities provider was predicated on a growing market for the company's products and efficiency and competition gains from a merger with its largest rival. Most of those benefits came through.

Changes to the regulatory environment, however, erased those gains and more. Despite increased profitability, Just has been forced to cancel its dividend, curtail sales and dilute its equity base through the issuance of new shares. Some of this was foreseeable. Regulators are worried about Just's outsized exposure to the UK housing market, something we should have paid more attention to. Some of it comes with the territory when investing in financial services.

Despite a recent rally, the shares still trade at less than half their asset backing. Our best guess is that investors will still do well from here. But there are simpler businesses trading at similarly attractive prices, particularly in the UK. We will chalk Just up in the experience column and focus our attention elsewhere.

SkyWest (NASDAQ:SKYW) posted fourth quarter results that demonstrated its superior economics versus most airlines. The company also announced a new 20 aeroplane contract with American Airlines. The new aircraft will be flying in the second half of 2020 and should result in a 5% increase in 2021 earnings versus prior expectations. Along with other airline stocks, SkyWest's share price has declined on the coronavirus outbreak. Management highlighted that the company has, for now, limited exposure due to the regional nature of its routes.

Alphabet's (NASDAQ:GOOG) share price performance has been strong over recent months, and for good reason. The company is becoming more shareholder friendly, evidenced by the US$21bn share buyback announced recently. Additional disclosures about the rapidly growing YouTube and Cloud segments are another welcome change. Meanwhile, the core business continues to perform well and is generating mountains of cash. We think Alphabet can further monetise some of its products, many of which have more than one billion users. Combined with an increased focus on capital returns, the company should build long-term value for shareholders.

TOP 5 HOLDINGS (as % of NAV)

Blancco Technology Group Plc	**(AIM: BLTG)**	13.2%
Alphabet Inc	**(Nasdaq:GOOG)**	5.2%
Zebra Technologies Corp	**(Nasdaq:ZBRA)**	5.2%
Motorpoint Group Plc	**(LSE:MOTR)**	4.6%
Babcock International Group	**(LSE:BAB)**	4.6%
Cash		3.8%

FUND OBJECTIVE

The Fund is an international equities fund, targeting undervalued securities on the world's stock markets. The Fund's investment objective is to outperform the MSCI All Country World Investable Market Index (Net) in Australian dollars (MSCI ACWI IMI) over a rolling 5-year period. The Fund's goal is to produce superior long-term returns from a portfolio of 20–40 businesses, irrespective of short-term share price movements^.

FACTS

Fund inception	8 February 2013
Minimum investment	$20,000
Monthly investment	Min. $200/mth
Distribution	Annual, 30 June
Applications/Redemption	Weekly

UNIT PRICE SUMMARY

As at	31 January 2020
Buy Price	$1.7874
Redemption Price	$1.7803
Mid Price	$1.7839
Portfolio Value	$177.1m

The Fund is forward-priced; you will receive the price struck subsequent to the receipt of your application/redemption.

ABOUT FORAGER

With over $330 million of funds under management and a focus on long-term investing, Forager Funds is a unique Australian asset management company.

Following a strong ten-year track record, Forager is a sustainable business but is nimble enough to invest in smaller listed companies not accessible to many investment managers.

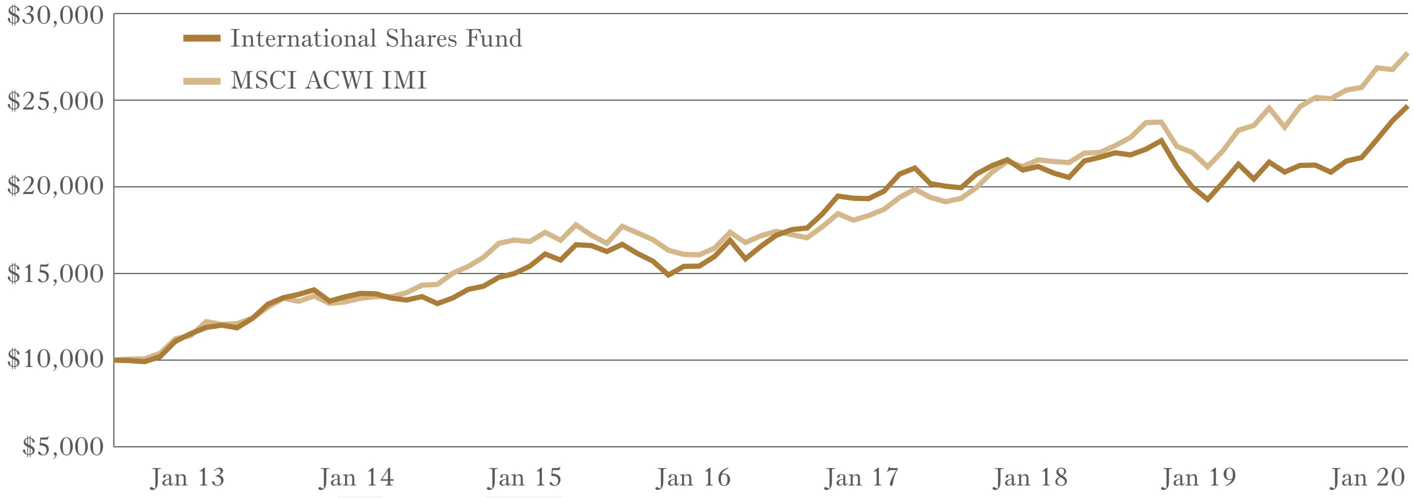
The company is majority owned by staff. Forager's shareholders support the desire to place performance before revenue. That means capping the size of funds before too much money becomes an impediment to performance.

Key investment staff are strongly aligned with investors through co-investment and / or equity in the Forager business.

FUND CHARACTERISTICS

- Concentrated portfolio of global equities
- Investments mainly in small and medium sized businesses
- Flexible mandate allows for a wide range of markets
- Investment team with deep pockets of expertise
- Strong focus on managing portfolio risks
- Potential complement to index or ETF funds
- Weekly applications and redemptions

COMPARISON OF $10,000 INVESTED IN THE FORAGER INTERNATIONAL SHARES FUND VS MSCI ACWI IMI



Source (MSCI ACWI AWI): S&P Capital IQ. The above figures assume that all distributions have been reinvested.
Past performance is not a reliable indicator of future performance and the value of your investments can rise or fall.

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